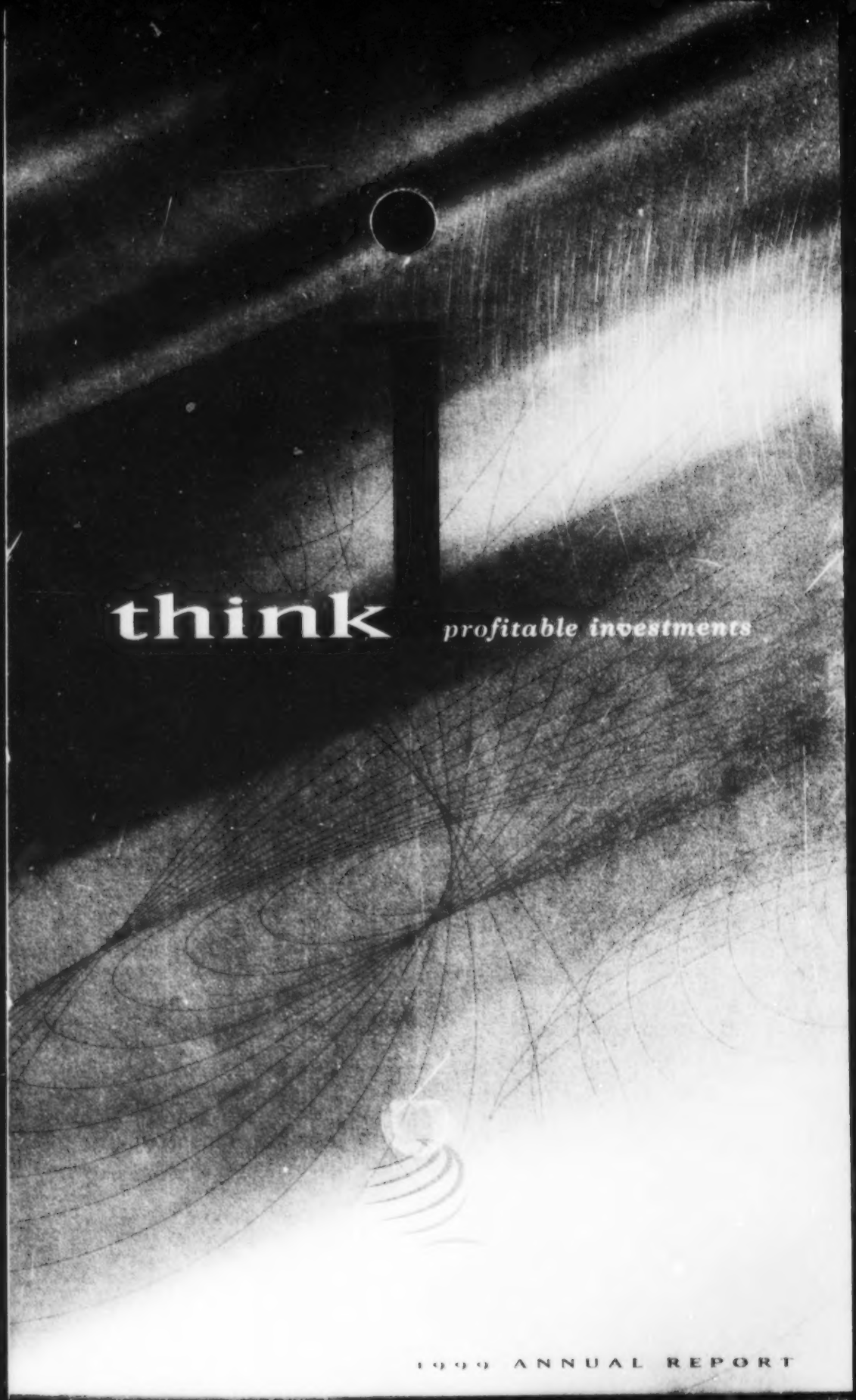

think
profitable investments
1999 ANNUAL REPORT

THE MISSION OF THE SOCIÉTÉ GENERALE DE FINANCEMENT DU QUÉBEC (SGF),

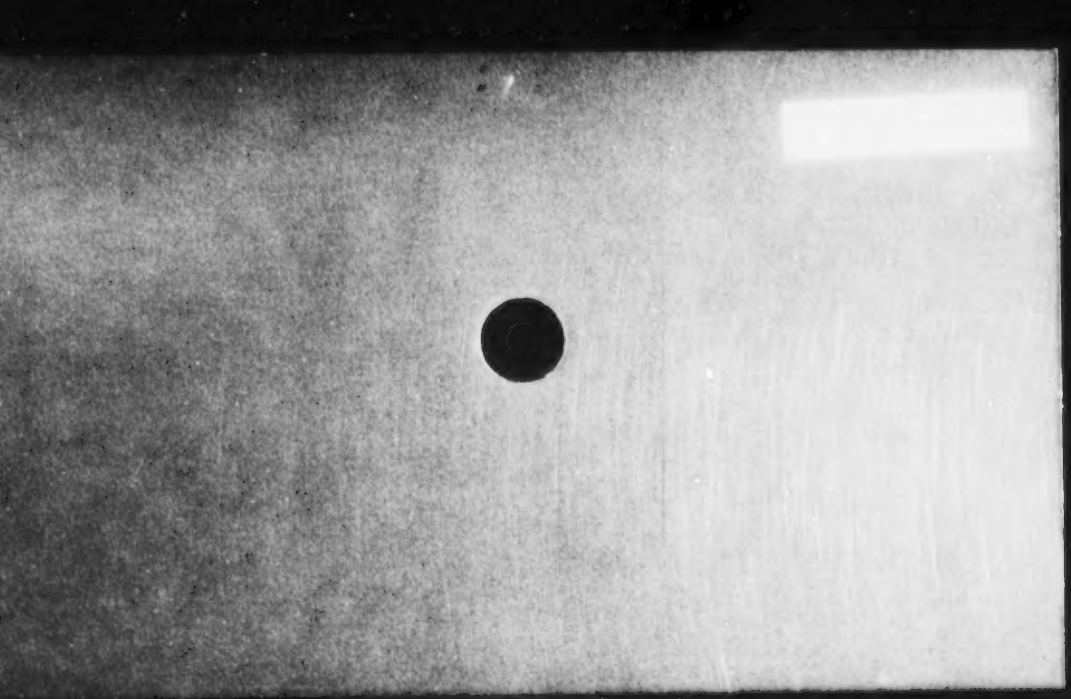
AS AN INDUSTRIAL AND FINANCIAL HOLDING COMPANY, IS TO CARRY OUT ECONOMIC

DEVELOPMENT PROJECTS IN COOPERATION WITH PARTNERS AND IN ACCORDANCE

WITH ACCEPTED REQUIREMENTS FOR PROFITABILITY THAT COMPLY WITH

THE ECONOMIC DEVELOPMENT POLICY OF THE GOVERNMENT OF QUÉBEC.

MAGNOLA METALLURGY INC.



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1999 FINANCIAL

think *increased performance*

52	**PROJECTS EXECUTED**
1,525 *in millions of dollars*	**TOTAL INVESTMENTS**
10,900	**JOBS CREATED**

36	**PROJECTS EXECUTED**
400 *in millions of dollars*	**TOTAL INVESTMENTS**
5,900	**JOBS CREATED**

DISTRIBUTION OF TOTAL ASSETS BY SECTOR

JOBS CREATED ACCORDING TO INDUSTRY KNOWLEDGE LEVEL

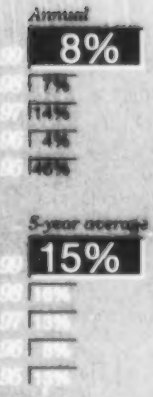
The knowledge-based economy

Our holdings in this sector posted favourable results. In fact, in 1998 and 1999, 68% of the jobs we helped create were in high-knowledge-based industries (KBIs).

NET EARNINGS
(in millions of dollars)

TOTAL ASSETS AND SHAREHOLDER'S EQUITY
(in millions of dollars)

SGF — RETURN



PROJECTS EXECUTED

TOTAL INVESTMENTS
(in millions of dollars)

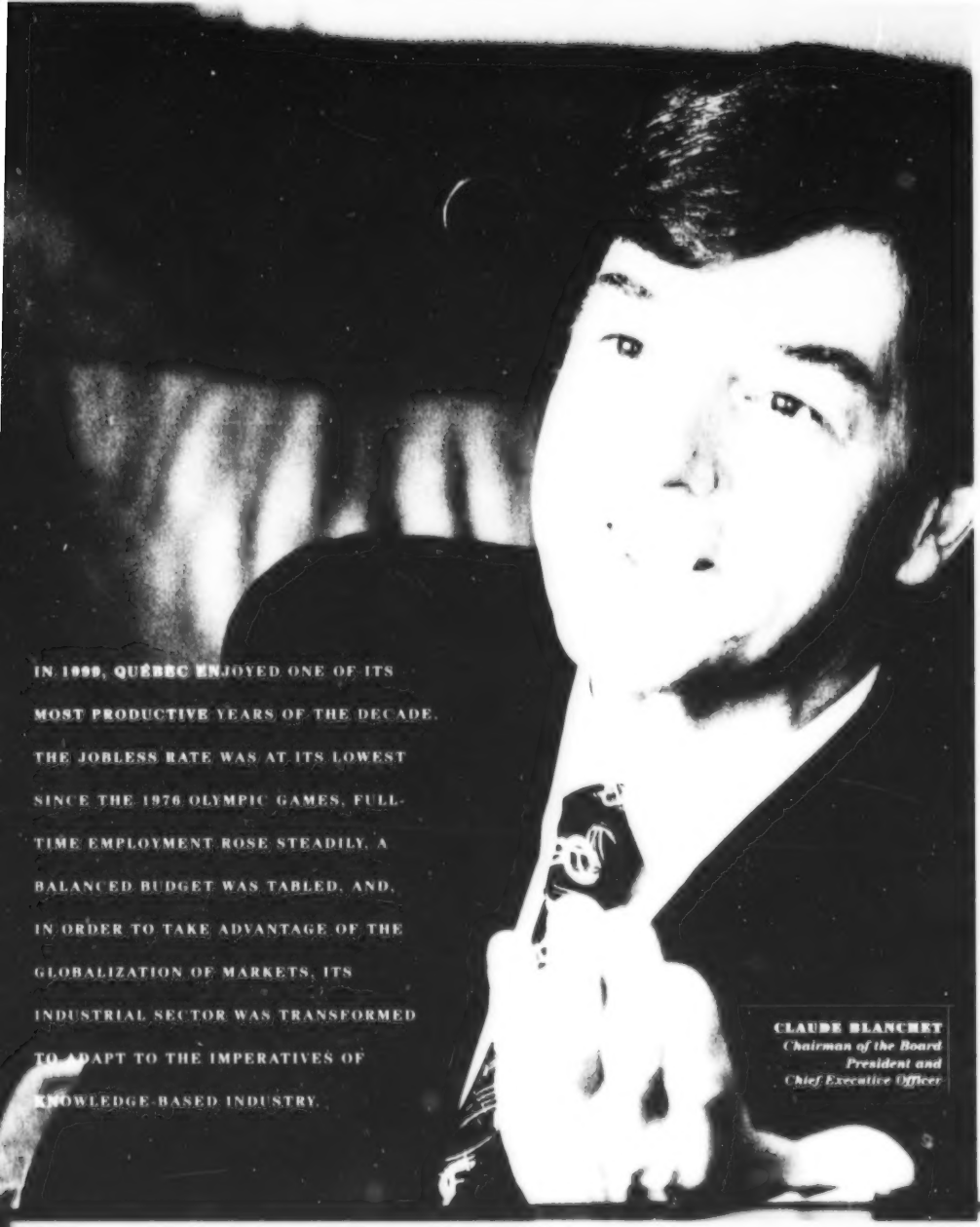
DIRECT AND INDIRECT JOBS CREATED

Note: The above data reflect projects for which agreements were concluded between the SGF and its partners during one year. Investment and job creation may spread over a number of years as projects move from construction to operating phases.

highlights

Financial Highlights

(in millions of dollars)	1998
Statements	
Revenue	759.5
Operating income	57.3
Net earnings	78.7
Financial Position	
Additions to capital assets	107.2
Business acquisitions and investments	54.9
Cash and cash equivalents	133.7
Total assets	1,757.4
Long-term investments	544.5
Capital assets	695.3
Total long-term debt	355.7
Shareholder's equity	1,245.3
Debt: equity ratio	22:78



IN 1999, QUÉBEC ENJOYED ONE OF ITS MOST PRODUCTIVE YEARS OF THE DECADE. THE JOBLESS RATE WAS AT ITS LOWEST SINCE THE 1976 OLYMPIC GAMES, FULL-TIME EMPLOYMENT ROSE STEADILY, A BALANCED BUDGET WAS TABLED, AND, IN ORDER TO TAKE ADVANTAGE OF THE GLOBALIZATION OF MARKETS, ITS INDUSTRIAL SECTOR WAS TRANSFORMED TO ADAPT TO THE IMPERATIVES OF KNOWLEDGE-BASED INDUSTRY.

CLAUDE BLANCHET
Chairman of the Board
President and
Chief Executive Officer

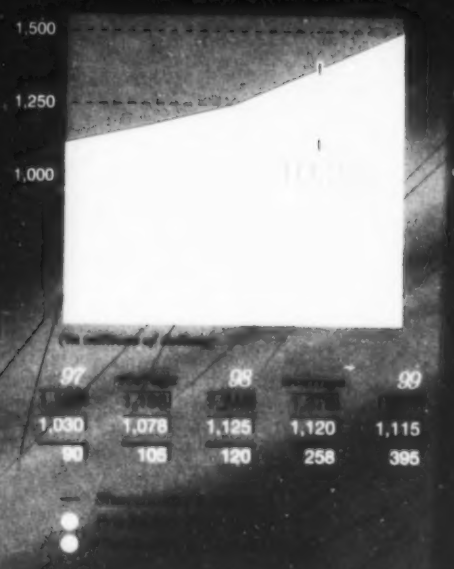
message

In 1999, the SGF set a pace we intend to keep. The year 1998 was a major turning point in the SGF's development. During that period, Rexfor, Soquia, Soquem, and Soquip—four state corporations with economic mandates—were grouped within the SGF. As well, new industry sectors were created, and the corporation's investment capacity was increased. The year 1999 marked the succesful integration of these corporations. Our ten industry sectors reached a pace we intend to keep. We set the challenging objectives of investing some $2 billion in capital over a five-year period, and of generating $10 billion in direct investments, a minimum 80% of which will come from partners in the private sector (both local and foreign) as well as financial institutions.

SHARE OF CAPITAL UNDER DEVELOPMENT AND PRODUCTIVE CAPITAL

Since 1997, the SGF has substantially increased investment. Indeed, projects in the construction and start-up phase have quadrupled from $90 million to $395 million.

Given that net earnings are generated only by productive capital, the rate of return on shareholder's equity does not accurately reflect the activity of the SGF. Consequently, in 1999, net earnings of $115.8 million generated a return on equity of 8.4%, but they generated 10.3% on productive capital. In 1998, these rates were 6.7% and 7.3% respectively.



Net earnings for 1999 were $115.8 million, with an average return on shareholder's equity of 8.4%, and an average five-year return of 15%.

By the end of the fiscal period, high investment volumes prompted the conversion of two divisions —SGF Tech and SGF Health—into full-fledged subsidiaries with specific consulting committees. Both continued to invest at an accelerated pace throughout 1999, as did SGF Chemical, SGF Mineral, SGF Rexfor, and SGF Soquia.

During the year, we were involved in 52 projects representing total investments of $1.5 billion, to which the SGF committed $362 million. This is a marked increase compared with 1998, which saw the SGF commit itself to 36 projects representing investments of $397 million, with the corporation accounting for $119 million of that capital. Projects for which final agreements with partners were concluded in 1999 will create over 5,000 direct and indirect jobs in the operating phase, as well as full-time equivalents of 5,900 person-years during construction.

The number of projects under development grew significantly. As at December 31, 1998, we had 58 memoranda of understanding (MOUs) for $5.8 billion in potential investments. By the end of 1999, the MOU figure rose to 80, for a value of $8.6 billion. The SGF pipeline, down which every investment project studied with other partners moves, will be busy in 2000. Based on our project-development process, we expect the year to deliver some promising results.

As at December 31, 1999, total assets were just under $2 billion. Despite significant sums committed to projects, the Québec government subscribed for only $150 million of the SGF's additional $2 billion capital stock authorized in 1998. Indeed, the SGF is fulfilling its mission of developing the Québec economy by optimizing its use of cash flow and by liquidating certain investments.

There are several reasons for our practice of calculating return on average shareholder's equity over a five-year period. First, economic cycles have an obvious impact on our investment returns, especially those related to natural resources. Second, our investments, essentially greenfield projects and non-consolidated investments—for which the pace of development has been accelerated—will generate results only in four to five years. In the year 2000, nearly one quarter of our equity will be in projects of this nature.

Furthermore, given that the corporation is an industrial holding company established with the aim of contributing to the long-term development of the Québec economy, the SGF must balance its roles of developing and managing a major portfolio. Hence,

the use of an average five-year return better reflects, over the long term, the synergy between company start-ups, the development of the companies in our portfolio, their operating performance, and the results posted by the SGF upon liquidation of the respective investments.

During the final year of the millennium, we also divested ourselves of our interest in certain companies, mainly Culinar, Tembec, Donohue Matane and the Québec Artificial Insemination Centre (CIAQ). The reasons included favourable market conditions, investments coming to term, and the interest of a strategic partner in acquiring the investment.

Buoyed by the diversification of our investments and the size of our portfolio, we will continue to apply sound management policy with regard to asset turnover. This will be done in accordance with market conditions as well as fair market values, with a view to enhancing our performance while infusing capital in new projects with the gains realized from investments that have reached maturity.

The knowledge-based economy

Actively contributing to the growth of our local knowledge-based economy will serve to elevate Québec among the leading economies in the industrialized world. This conviction guides us in all our investment decisions, no matter what the industry sector.

Over the past few years, the SGF actively contributed to the overhaul of the Québec economy, an exercise that has had a clear impact on our GNP. The new framework has high added value, with promising repercussions on employment.

Our plan to improve the knowledge-based economy is threefold. First, to continue to exploit Québec's competitive advantage in the hi-tech sector. Second, to develop industries with an average technological component to boost value-added processing initiatives. Third, to enhance the technological content of traditional industries, such as those involved in the development of natural resources. In 1999, our investments confirmed that we are right on track on all counts.

Grey matter

The SGF's performance in 1999 is due to the dedicated commitment of its employees. Throughout the year, they succeeded in identifying good business opportunities and in bringing several projects to fruition with local and international partners. The contribution of the SGF and the SGF Rexfor boards also deserves to be acknowledged, as does the input of the SGF Mineral and SGF Chemical consulting committees.

We are pleased to welcome some new members to the SGF Board of Directors. Messrs. André Marcheterre, Roland O. Cyrenne and Jean Pronovost replace outgoing members Messrs. Jacques Brind'Amour, Marc Ledoux and Francesco Bellini, whose valuable support we wish to recognize.

The structure of our operations, which is based on the establishment of separate subsidiaries complete with their own board or consulting committee, enables the SGF to draw from the expertise of the leading Québec and foreign experts in each respective field.

Consulting committees* constitute a source of support for the presidents and COOs of the subsidiaries. They guide them throughout the decision-making process in relation to potential projects and create a high level of comfort with respect to aspects of the venture that deal with issues of technology, the market and other related areas. Consulting committees have the power to recommend, to the SGF Board of Directors, on all projects originating from their sector, as well as on the sector's strategic planning and operating plan.

* *See page 44 of the Financial Statements for a list of the members of the SGF subsidiaries' consulting committees.*

new head office
n new foreign partn
BIO-ING
ULTRAVISI
TURBOC

FL (LUXEMBOURG)

ESTION BIO-INOVA (FRANCE)

PM SpA (ITALY)

INING ITALIANA SpA (ITALY)

URBOCORP (AUSTRALIA)

HI ENERGY (USA)

ATHIS (FRANCE)

DT (GREAT BRITAIN)

UN MICROSYSTEMS (USA)

EWLETT-PACKARD (USA)

WINNING STRATEGIES

In 1999, **SGF Soquia** further consolidated its leadership position in the Québec agri-food industry. The company recorded profits of $75.4 million for the year. SGF Soquia left its mark on the year on several fronts, generating total investments of $341 million staggered over 11 projects. Its involvement in Culinar-Saputo alone represented a transaction worth $283 million, which included the acquisition by SGF Soquia of a near-5% stake in the Saputo Group. The deal translated into a gain of $67.7 million, or a compound return over 22 years of 13.24%, not to mention that SGF Soquia is now a partner in one of the country's largest agri-food concerns that also enjoys favourable leverage as a major North American player.

SGF Soquia also invested in processing companies, thus enabling them to proceed with their expansion and new product development goals. Canneberges Atoka and Epicerie Méditerranéenne both received an infusion of capital from SGF Soquia, while the SGF sector also entered into technology-oriented development projects with investments in Atrium Biotechnologies and GRT Aqua-technologies ltée.

In December, SGF Soquia announced a $10 million investment in Patrimoine des eaux du Québec, a group that operates water-bottling plants that market their products under the Naturo, Larochelle, and Aqua Nature brands, as well as the Boischatel distribution network. The project, which is estimated at $16 million, creates a strong Québec presence in the bottled-water market.

During the year, SGF Soquia opened an office in St-Hyacinthe, Québec's technological capital of the agri-food industry.

VALUE-ADDED ALLIANCES

For the chemical and petrochemical industries supported by **SGF Chemical**, 1999 was underscored by a wave of mergers and acquisitions that delayed the completion of several of its projects. Our subsidiary was also affected by the soaring cost of oil, a fundamental resource for most of its activities.

$184M
FOREST PRODUCTS
$296M
METALS AND MINERALS
$85M
CHEMICALS, PETROCHEMICALS AND PLASTICS

INVESTMENTS
$341M
$63M
$100M
HIGH TECHNOLOGY
AGRI-FOOD
TRANSPORTATION EQUIPMENT AND MACHINERY
OTHER
think tangible benefi

We want to position Québec as a natural gateway for European and Asian companies that want to penetrate the North American market. SGF Chemical has been active in the development of engineering plastics used in the health, automotive, and technology sectors. This year we also emphasized fine chemicals and biochemical processes. Several MOUs signed during the year should result in finalized agreements in 2000. The markets targeted were primarily those where global growth exceeded 5%.

Soquip experienced growth by focussing on a new niche: alternative energies such as wind, solar, and biofuel, as well as the components required for their production.

The biomass cogeneration plant at Saint-Félicien involves an American partner, CHI Energy Inc. This project, which will require a $63 million investment —of which $8.7 million is SGF capital—squares perfectly with the new strategic orientation that includes the development of renewable energies. Once it opens in spring 2001, the plant will create 80 direct and indirect jobs.

Interquisa, a company owned by Cepsa, our Spanish partner in Petresa Canada, and SGF Chemical concluded an agreement to conduct a joint feasibility study on the construction of a purified terephthalic acid (PTA) plant in the Montréal East industrial area. Evaluated at $400 million U.S., this project should help revitalize the petrochemical core of Montréal. The goal continues to be to attract investment related to the processing of resources used in the PET sectors and that of specialized resins, which are important value-added niches.

In December, SGF Chemical announced an investment in TechBlend, a new company specialized in the manufacturing and marketing of carbon black concentrate for the plastics industry. The project will create 160 direct and indirect jobs and be headquartered in Iberville.

Reycan is a major supplier of thin aluminum heat exchanger material used by the automotive industry. As a result of the transaction, SGF Mineral retains a 40% interest in Reycan, and Corus acquires a 60% interest.

In 1999, SGF Chemical posted net earnings of $18.7 million, compared with $16.5 million in 1998.

PROJECTS IN GOOD FORM

SGF Mineral was involved in several successful ventures that should come to fruition in 2001. This sector, which targets value-added processing of industrial materials, truly benefited from the integration of Soquem—a move that resulted in SGF Mineral's signing of two important agreements in the gold mining and chrysotile sectors totalling $225 million in investments.

The SGF contributed to the realignment of Soquem by making its decision-making process more flexible and by giving it the financial means to refocus its growth strategy toward mining and primary minerals processing projects rather than limiting its scope to exploration ventures.

Together with its Japanese partner Furukawa, SGF Mineral began its second phase of expansion of the Phillips-Fitel plant in Rimouski, which will create 150 new direct and indirect jobs in the Rimouski area. Phillips-Fitel is the only Canadian manufacturer of fibre optic guard cable for the high-speed transmission of voice and data, as well as for the protection of transportation networks from lightning and power interruptions.

IntrAl, a limited partnership whose share capital is jointly held by the SGF and Sural C.A. of Venezuela, doubled production capacity over the summer of 1999 to meet the growing demand of aluminum-clad steel wire. The company also introduced a new technology in the area of continuous aluminum casting.

At the outset of the current fiscal year, SGF Mineral concluded an agreement to sell 20% of its stake in Reycan to Corus Group plc, while its partner, Reynolds Metal Company, divested all of its interest in Reycan to the U.K. steel and aluminum manufacturer.

In 1999, SGF Mineral bolstered its ties with Italy once it and Mining Italiana SpA signed an agreement regarding the acquisition by the Italian company of three Québec mining properties. Accordingly, Mining Italiana SpA agreed to fund exploration work worth some $13 million over 4 years. The work will be carried out in collaboration with Soquem personnel.

The SGF also joined forces with the Italian concern KPM SpA to create KPM North America, a corporation specialized in the manufacture, assembly and distribution of pneumatic cylinders, valves and filters-regulators-lubricators (FRLs). The total investment is of the order of $14 million and will create 50 direct and indirect jobs.

SGF Mineral took advantage of rebounding aluminum prices in the second quarter of 1999 to record net earnings of $11.7 million, compared with $7.7 million the previous year.

RENEWED RESOURCES

SGF Rexfor operates in the forest products sector, a cyclical industry that is subject to the conditions and fluctuations of the world economy. In 1999, the industry was marked by upheavals spawned by a series of major merger and acquisition negotiations of international scale.

During the year, SGF Rexfor focused on value-added products and high-end niches that would enable it to capitalize on available raw materials. Specialty papers rebounded in the middle of the year, while cardboard and lumber, which are closely tied to economic activity, posted very favourable results.

One of 1999's flagship investments in the forest products sector was a $130 million joint commitment by the SGF and a British Columbia partner to build a Concert Industries Ltd. plant in Gatineau that will produce absorbent material used in personal hygiene products.

By investing in Denharco, SGF Rexfor took a major step toward establishing itself as a leading player in the production of forest harvesting attachments. The $5 million investment is earmarked for the development of integrated harvesting solutions in order to optimize operations and reduce costs based on user needs.

SGF Rexfor and its partner Boisaco announced a joint $60 million investment slated to generate 100 jobs at the Sacopan door-panel mill located in Sacré-Coeur. The deal will provide full employment to this small municipality on the North Shore.

Over the course of fiscal 1999, SGF Rexfor also acquired an interest in DVP-GS, a firm that specializes in developing digital photogrammatic mapping software; Groupe Nova, manufacturers of floor boards based in the Saguenay–Lac-Saint-Jean region; Softmap inc., creators of mapping software and products; and finally, Gestion R. Grondin, a company that processes and develops pine.

Involved in Tembec since 1973, SGF Rexfor sold all of its Tembec shares in the fall of 1999 for $47 million. In relation to the sale, the SGF sector posted net earnings of $18 million. The investment had reached maturity, and the transaction was in keeping with the SGF policy on portfolio turnover.

Tembec also acquired all of the issued and outstanding shares of Donohue Matane Inc., a joint venture of SGF Rexfor. The acquisition of the Matane mill, and the installation of new equipment, will enable Tembec to pursue its overall growth objectives while continuing to guarantee maximum spin-offs for the region.

Mirroring the consolidation trend in the industry at the end of the fiscal year, SGF Rexfor sold its stake in Malette Québec inc. to Tembec for $50 million.

Produits forestiers Bellerive Ka'N'Enda, an SGF Rexfor subsidiary, committed $6 million to the construction of a sawmill in Mont-Laurier.

SGF Rexfor also concentrated on managing its significant interest in Domtar. The paper manufacturer posted an excellent return on shareholder's equity which, in turn, was reflected in the higher value of the company's stock.

In 1999, SGF Rexfor recorded net earnings of $53.8 million compared with $39.7 million the previous year.

PROMISING LINKS

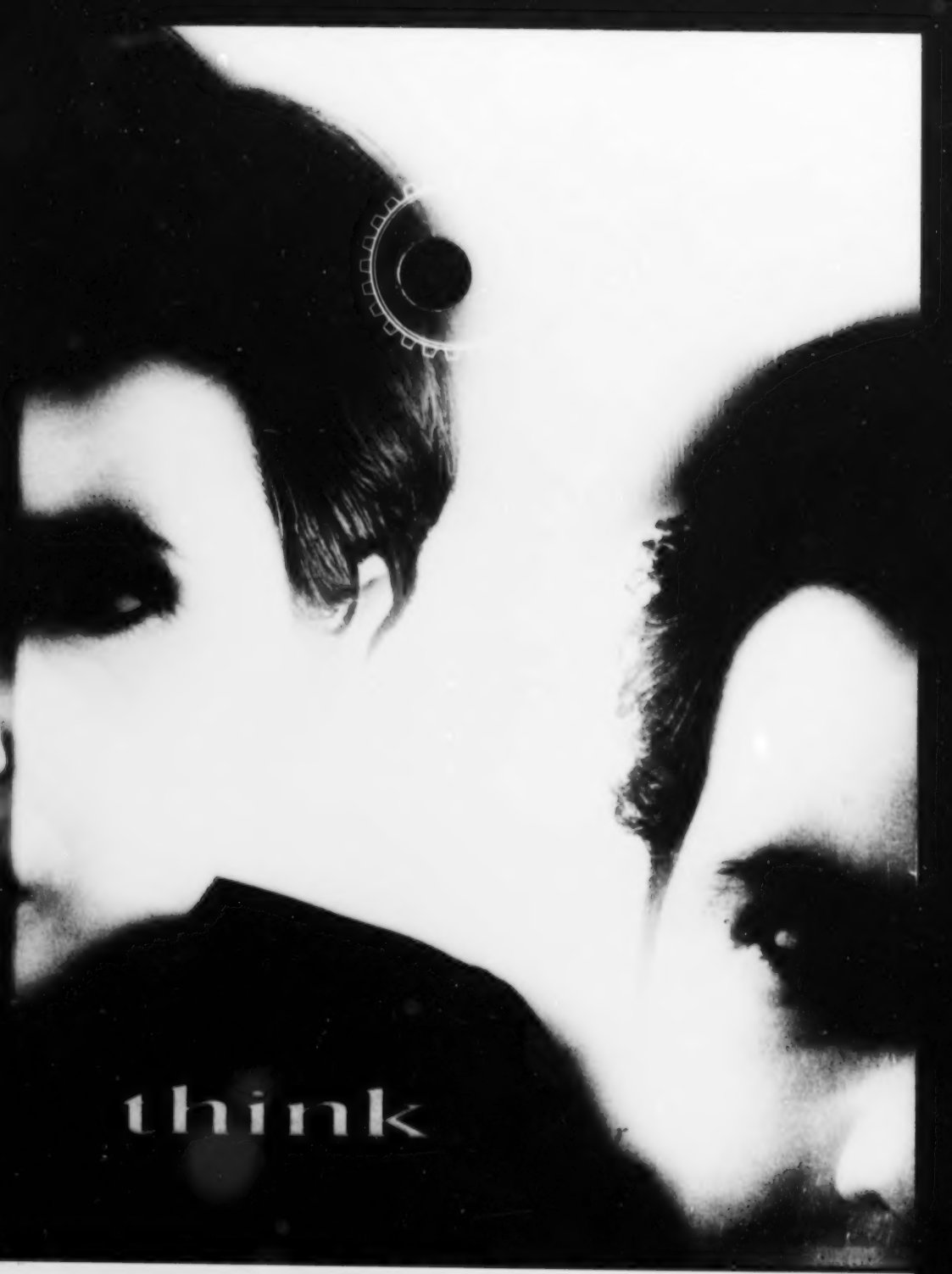
The population's healthcare needs continue to grow. The **SGF Health** subsidiary focuses on the development of two traditional branches of medicine, preventive and curative, while keeping an eye on the emerging field of regenerative medicine.

We believe that the best way to develop this sector is by partnering with foreign enterprises, as well as supporting Québec companies to prepare them for networking with partners from abroad. SGF Health not only secured some highly promising investments in 1999, but also by far surpassed its objectives for the year.

In the first quarter of 1999, Andromed, a company affiliated with Theratechnologies and the SGF, concluded an agreement for the worldwide marketing of Stethos with Hewlett-Packard. Stethos is the world's first entirely electronic stethoscope. In June, SGF Health invested $7.5 million in Theratechnologies. The funds will go toward the creation of a therapeutic peptide laboratory.

During the fiscal year, SGF Health also committed $10 million in Infectio Diagnostic (I.D.I.) inc.; the sum is earmarked for the development and marketing of molecular probes intended for high-speed diagnosis of bacterial infections.

SGF Health prompted the transfer of two head offices to Québec. Calgary's UltraVision, a manufacturer of contact lenses, is moving its main plant and distribution centre to Saint-Hubert following an investment of $15 million. The French firm, Gestion Bio-Inova, has chosen Montréal as the location for its North American headquarters, a project estimated to cost $10 million. Bio-Inova Life Sciences North America will perform clinical trials for the pharmaceutical, biopharmaceutical and agri-food sectors. The two



projects combined will result in the creation of 700 direct and indirect jobs.

PROFITABLE NETWORKS

The SGF's high-technology subsidiary, **SGF Tech**, channelled considerable effort into two ventures in particular—Cambridge Display Technologies (CDT), which produces semi-conductor polymers used to make flat screens, and Circuit Foil Luxembourg (CFL), a manufacturer of copper foil used in printed circuit boards. The two projects, jointly evaluated at more than $100 million, will receive investments of $30 million and $32 million, respectively, from SGF Tech.

We invested $7.6 million in UIForce for the development of technologies enabling the creation of interactive applications and services for sophisticated platforms in

telephony and telecommunications. The project will create 300 skilled jobs. UlForce also entered into a new working relationship with Sun Microsystems Canada Inc. as an authorized Java™ centre with a research mandate focused on Internet telephony applications in Montréal and Hull. Furthermore, the company concluded a number of significant strategic and commercial alliances involving major players in the industry, including an agreement to have its technology integrated with that of Unisphere, a Siemens subsidiary, and becoming a preferred partner in iPlanet, a consortium consisting of Sun, Netscape and AOL.

SGF Tech pursued its policy of investing in projects taking part in the convergence of computer and telecommunications technologies. It joined Elyps Solutions de répartition inc. as it completed Phase II of an $84 million project in the digital radio communications sector.

Overall, the sector produced total investments of $333 million divided among five projects. For several years, we have been making efforts to attract a manufacturer of semi-conductors to Québec. Canada is the only G7 country without one.

INDUSTRY SECTORS OF TOMORROW

During the past year, the **Industrial Logistics** division focused on developing a better understanding of the market and its players. It also began to evaluate the growth potential of logistics and distribution for the Greater Montréal region. The results point to the eventual rise of Montréal as an international centre for industrial logistics.

The phenomenal growth of integrated transportation systems (all of which are available in Québec)—the advantages of an international cargo centre in Mirabel Airport, the Montreal Port as well as other ports along the St-Lawrence Seaway, the north-south convergence of rail networks, and finally, the intermodality of these means of transportation—indicate that Québec is ripe for high growth in this sector.

The redeployment of Québec's **machinery** sector prompted the SGF to set as its goal the positioning of the province's companies as strategic subcontractors equipped to provide comprehensive solutions suited to the individual needs of the machinery and tooling markets, and to those of our international customers.

Québec boasts some indisputable strengths, such as a worldwide reputation in research and development, an industrial fabric of leading-edge users in several industry sectors, a skilled workforce, a network of competitive subcontractors, and favourable tax incentives.

The machinery division will use all of these advantages to revitalize the industry in Québec and to establish it as a gateway to North America for new technologies. In 1999, this sector undertook to invest $15 million in Turbocor Inc., a compressor manufacturing plant that constitutes the SGF's first alliance with an Australian partner. Once completed, the project will have cost $37 million and have created 374 direct and indirect jobs.

In keeping with its strategic plan, the SGF's new **transportation equipment** division aims to bolster the infrastructure surrounding the major players in transportation and aeronautics, such as Bombardier, Bell Helicopter, and Pratt & Whitney. This will be achieved by urging local suppliers to provide these companies with high-value-added components that require the latest technology—e.g. software, sensors—or to integrate the parts themselves and then export their know-how.

In November, the division signed a letter of interest to invest in Groupe René Materiaux Composites inc. (GRMC), a producer of autobody parts made of composite materials used by the manufacturers of heavy trucks. The agreement, estimated at $7.5 million, was concluded in March 2000, and will create 150 direct and indirect jobs. GRMC operates two plants in

Québec, one in St-Ephrem and the other in Ste-Clotilde de Beauce.

Plans to establish new plants and to engage in foreign partnerships are currently under way, and should be formally announced during the course of 2000.

TARGETED GOALS

The SGF seeks to help develop tourism in certain Québec regions through its **recreational tourism** sector. It hopes to accomplish its objective through partnership agreements with Québec-based and foreign investors who share the same skills, thus guaranteeing the projects' success.

The year 1999 marked our first investment in the recreational tourism sector: a $12 million investment in Metaforia, a company that develops and operates entertainment centres based on advanced virtual-reality technology and 2D/3D productions. Its production, *Oceania*, was the most popular attraction at Expo 98, held in Lisbon, Portugal, which bodes well for the international stage. The launch of a first site in Montréal will serve to reinforce Québec's standing as a multimedia centre. The venture will create 175 jobs. The Technodome project, a joint venture with Toronto-based Heathmount Corporation, which boasts a total investment figure of nearly $1 billion, was also high on our list of priorities for 1999. We look forward to announcing further developments in 2000.

Both projects are examples of the emerging popularity of urban entertainment intended for both locals and for visitors just passing through.

Partners in the truest sense

The SGF must assume its role of shareholder in the companies in which it invests. For this reason, we provide, among other things, human resources support—remuneration, transfers, immigration assistance, upper-level management—to enterprises that request it. In 1999 alone, we assessed and restructured the organizational make-up of 13 new companies in our portfolio. Companies also have recourse to the SGF's legal, financial, strategic planning, and communications services.

A presence throughout Québec

The SGF continues to be involved across Québec, investing not only in projects in major economic centres, but also in ventures in outlying regions such as Iberville, Mont-Laurier, Manseau, Sacré-Coeur, Granby, Rimouski, Princeville, and Saint-Félicien, to name a few.

Global connections

The SGF is proud of its first venture with an Australian partner, Turbocorp. This year, we also participated in start-ups involving Spain's Cepsa, Venezuela's Sural, Luxembourg's Circuit Foil, France's Gestion Bio-Inova and Mathis, Italy's KPM SpA and Mining Italiana SpA, and the United States' CHI Energy.

The importance of forging closer ties with our international strategic partners has prompted us, in recent years, to direct a great deal of attention to initiatives such as the Davos World Economic Forum. Every year, the event enables us to identify a number of leads. Ventures like Mining Italia, UtForce—through an agreement with Sun Microsystems—and Bio-Inova were realized as a result of the remarkable opportunities that arise when the world's major decision-makers are assembled under one roof, as they are at the Forum.

Outlook for 2000

The SGF has set a pace we intend to keep. Consequently, the corporation is on track to achieve the investment goals outlined in its five-year plan. Every day, we can see the increasing rate at which our projects are being implemented. We have also observed that Québec's economic reality — and its numerous assets — are gaining recognition abroad.

Without looking too far into the future, we can, based on the first four months of the year, already forecast that 2000 will see several new investment agreements. The number of projects that have reached the advanced negotiations stage provides a good

Since the beginning of the year, Atrium Biotechnologies, a newly formed division of Aeterna Laboratories, and Draxis Pharma, a contract pharmaceutical manufacturer, each received $7.5 million from the SGF. DSM Biologics, a joint venture with our Dutch partner DSM, announced in January that it planned to boost production capacity at its Montreal facilities by adding a 2000-litre vat for the manufacture of biopharmaceutical products.

The SGF intends to continue to raise its stake in KBIs. The Greater Montreal region is among North America's leading centres in this area.

THE SGF POSTED AN 8.4% RETURN IN 1999, AND ONE OF 15% FOR THE 1995-1999 PERIOD

These rates represent the SGF's net earnings divided by average shareholder's equity over the respective periods.

The financial statements presented in the SGF's 1998 annual report consolidated the corporation's historical results as published over the years. In 1998, the grouping of Rexfor, Soquia, Soquem, and Soquip into the SGF was recorded under a method similar to a pooling of interests. Since the SGF's audited consolidated financial statements for the last three years were prepared accordingly, we can now present annual and five-year historical rates of return on average shareholder's equity, factoring in the results of the five merged corporations.

Given that the corporation is an industrial holding company established with the aim of contributing to the long-term development of the Québec economy, the most significant measure of the SGF's performance is over five-year periods. Consequently, it can balance its roles of developing and managing a major portfolio. Over the previous target period, i.e., 1995-1999, the return on average shareholder's equity was 15%. This rate is the outcome of the consolidation of all net earnings achieved by the SGF and its interests in other companies, as well as profits earned upon the disposal of certain investments, factoring in average shareholder's equity.

As joint owner, with its partners from the private sector, of the companies it helps develop, the corporation records its earnings according to prescribed accounting standards. Other than venture capital investments, these earnings reflect what is actually generated by the companies. This differs from the management practices of investment firms or pension funds, which calculate rates of return on the basis of what would have been achieved, upon disposal of their entire portfolio, at market value, and under favourable market conditions at a given date.

Nevertheless, it is possible to evaluate the market value of a certain number of the SGF's investments at the end of the fiscal year. For example, its 36.3 million Domtar shares had a market value of $621.4 million as at December 31, 1999, but in the financial statements, they are recorded at $342.8 million as at the same date. The potential increase in value of $278.6 million may be reflected, and used to calculate the SGF's return, only at the time they are actually disposed.

Furthermore, the 8.4% annual rate of return does not factor in market values that may be attributed to investments not listed on a stock exchange. A case in point is SGF Soquia's interest in Culinar, sold in 1999. Despite management's conservative assessments in recent years, the gain realized was never reflected in the results, even if the company's value was increasing over time.

In addition to the accounting method used to determine the SGF's net earnings, we must also clarify the application of average shareholder's equity as the basis for calculating a rate of return.

In essence, this basis varies in accordance with retained earnings (i.e. that portion of earnings not distributed to the shareholder as dividends) and share-capital subscriptions. Hence, during a period of strong development, as has been the case since 1998, a significant portion of shareholder capital is invested in several ongoing projects that are under construction or in a start-up phase. These funds do not generate earnings immediately. In fact, it is not uncommon for them not to yield any returns for some time, and in certain cases, to generate losses during the start-up phase. Furthermore, some investments recorded at cost generate little or no earnings at all.

At December 31, 1999, a portion of shareholder's equity evaluated at $394.6 million was committed to development projects, i.e., 26.1%. The previous year, the portion invested in development projects accounted for only 9.7% of shareholder's equity. The table entitled *Companies According to Accounting Method* lists the investments (in italics) that we deem committed to development projects.

Ultimately, the figure representing productive capital used to calculate the SGF's return on equity for 1999 is $1,120.4 million. Accordingly, the annual return has been evaluated at 10.3%, 1.9% more than the return of 8.4%. The differentiation of rates of return is shown in the table on page 4.

In short, the corporation's return on equity for 1999 was 8.4%, while the return on productive capital was evaluated at 10.3%.

Finally, the average five-year return of a corporation such as the SGF is more appropriate than a simple annual rate of return because, over the long term, it factors in the performance of our investments, as well as the development and ongoing results posted by the companies in our portfolio.

COMPANIES ACCORDING TO ACCOUNTING METHOD

As mentioned previously, the SGF is much more than a simple investor. The corporation plays a major role as joint owner along with its partners. This rather unique arrangement is reflected in, among other things, its financial results. In other words, the influence the SGF exerts in matters of strategic direction, development, investments, financing, annual budgets and even, in certain cases, operations, determines the accounting method used to record these companies' results.

Consequently, when the SGF has an exclusive controlling interest in another company, that company is considered an *SGF subsidiary* and all items in its financial statements are consolidated, line by line, with those of the SGF. At December 31, 1999, the SGF controlled 8 subsidiaries, including the Veterinary Medicine Distribution Centre (CDMV).

When the SGF has a minority interest in the share capital of a company, as is generally the case, it nonetheless exercises joint influence and control. These investments are recorded as *SGF joint ventures* and the 1999 results for each of the 19 joint ventures, such as Petresa, in which the SGF holds 49%, are consolidated proportionately with those of the corporation.

The SGF also holds interests wherein it exerts a significant influence. Every year, the corporation will record its share of net earnings of these companies, which will also be reflected on the SGF's balance sheet. Domtar is one of the SGF's 23 *significantly influenced companies*.

Certain investments, particularly in the health and high-technology sectors, are similar to venture capital investments in that their value is not always associated with annual results. The SGF owns 11 such enterprises, such as Alis Technologies. In these cases, it is the change in their value that will be recorded in the SGF's financial statements.

Finally, other long-term investments, recorded at cost, reflect the SGF's relatively modest influence. Some 32 enterprises fall under this category, and their results are not included in those of the corporation. A case in point is our 4.9% interest in the Saputo Group.

In order to provide the most complete information, the following table breaks down each investment by SGF sector and according to accounting method. Furthermore, the investment amount per sector reflects the net book value of each of the combined companies for the sector.

It should also be noted that all titles in italics indicate that these investments are considered under development or are considered to have a modest effect on the net earnings for 1999. Nevertheless, a substantial portion of capital is invested in them.

COMPANIES ACCORDING TO ACCOUNTING METHOD

as at December 31, 1999

- ● **SUBSIDIARIES**
- ■ **JOINT VENTURES**
- ▲ **SIGNIFICANTLY INFLUENCED COMPANIES**
- ▼ **VENTURE CAPITAL**
- ◆ **INVESTMENTS AT COST**

(in millions of dollars)	●	■	▲	▼	◆	*total*
Forest Products						481.2
Les Produits forestiers Bellerive Ka'N'Enda	●					
Produits forestiers St-Alphonse inc.	●					
Rexforêt inc.	●					
Malette Rexfor inc. (Malette Québec)		■				
Sacopan inc.		■				
Sodexpan inc.		■				
F.F. Soucy inc. & associés			▲			
Groupe Pyrovac inc.					◆	
Denharco inc.			▲			
Domtar Inc.			▲			
Other					◆	
Metals and Minerals						416.7
Albecour	●					
Reycan		■				
IntrAl		■				
Phillips-Fitel inc.		■				
Neuman U.S.A. Ltd.		■				
Neuman Aluminium Canada		■				
SDM			▲			
Altex Extrusion			▲			
Magnola		■				
KPM North America		■				
Soquem inc.	●					
Chemicals, Petrochemicals and Plastics						190.2
Pétromont		■				
Petresa		■				
Karbomont		■				
Kemfor					◆	
SolPlastiques			▲			
TechBlend			▲			
Soquip	●					
Agri-food						167.7
C.I.P.Q. inc.	●					
C.D.M.V. inc.	●					
Aliments Carrière			▲			
Patrimoine des eaux du Québec			▲			
Champost			▲			
Composts du Québec			▲			
Canneberges Atoka inc.			▲			
Fruits bleus inc.			▲			
Gestion R.T.			▲			
Pêcheries Marinard Ltée			▲			
Maison du Gibier			▲			
Épicerie Méditerranéenne			▲			
GRT Aquatechnologies			▲			
Fabrique de glaces à l'européenne			▲			
Pisciculture des Alléghanys			▲			
Saputo Group Inc.					◆	
Other					◆	
High Technology						88.4
NSI Communications			▲			
Goal Semiconductors				▼		
Domosys Corporation Inc.				▼		
Alis Technologies				▼		
Elyps				▼		
Compositech & Laminés CTEK					◆	
Moli-Flex White		■				
UlForce				▼		
Hillman CDT LLC				▼		
Health						57.9
Andromed		■				
DSM Biologics		■				
Haemacure				▼		
Infectio Diagnostic (I.D.I.) Inc.				▼		
UltraVision				▼		
Bio-Inova		■				
Theratechnologies					◆	
RTP Pharma Inc.				▼		
Recreational Tourism						
Métaforia		■				
Machinery						
Turbocor inc.		■				
Transportation Material						
Technologies M4 inc.					◆	
Other						
Novacap inc.				▼		
Corporate Activities						
					◆	

1999 BUSINESS CONDITIONS

During the fiscal year, the SGF concluded several large transactions that had an impact on the financial statements.

Disposal of four investments
In 1999, the SGF and its subsidiaries concluded four transactions that affected four investments held for a number of years. The Québec Artificial Insemination Centre (CIAQ) was sold at book value, as mentioned in the note on *Subsequent events* in last year's financial statements. Over the summer, SGF Soquia exercised its right to purchase the Mouvement Desjardins' majority interest in Culinar, in order to subsequently sell the combined shares held by SGF Soquia and Desjardins to the Saputo Group. This entire operation generated net earnings of $67.7M. For its part, SGF Rexfor sold its common shares of Tembec on the market and realized net earnings of $18.1M. Finally, with its partner Donohue, the corporation sold its stake in Donohue-Matane. Together, these disposals generated gains of $89.5M, cash of $224.1M, and $100M in Saputo Group shares.

Evaluation of venture capital investments and provisions
A new accounting policy adopted in 1998 to better reflect the SGF's mission in the new economy sectors allows for the recording of venture capital investments at fair value. Changes in values are recorded as unrealized gains or losses. In 1999, the evaluation of the corporation's venture capital investments totalled $112.8M, after having posted a total unrealized loss of $10.1M.

Furthermore, an $8.6M provision was recorded to reflect a permenant decline in the value of some long-term investments.

Growth sectors
In 1999, the accelerated pace of activities related to major investments entailed development costs of equal importance. These costs combine all the charges that would have been incurred by the four former state corporations and the SGF had they not merged. The new pace of development is reflected in 1999 through new businesses and investment acquisitions totalling $272.2M, and through partnerships in several expansion projects involving companies in our portfolio.

Shareholder subscription
In 1999, the shareholder subscribed and paid for 15 million common shares at $10.00 each for a total of $150,000,000. Hence, since the inception of the SGF, shareholder contributions have accounted for $1,073,340,180 of the $2,925,000,000 in authorized capital (as per recent legislative changes in 1998), leaving an available balance of $1,851,659,820.

RESULTS BY SECTOR: COMPARATIVE RESULTS FOR 1999 AND 1998

The corporation's consolidated net earnings for 1999 were $115.8M, compared with $78.7M in 1998, an increase of $37.1M or 47.1%.

The breakdown of the SGF's net earnings by sector is as follows:

Net earnings by sector *(in millions of dollars)*	**1999**	1998	Change
Forest products	**53.8**	39.7	14.1
Metals and minerals	**11.7**	7.7	4.0
Chemicals, petrochemicals and plastics	**18.7**	16.5	2.2
Agri-food	**75.4**	24.9	50.5
High technology	**(14.0)**	(3.1)	(10.9)
Health	**(13.2)**	(3.9)	(9.3)
Other sectors under development	**(6.4)**	–	(6.4)
Subtotal	**125.9**	81.8	44.1
Corporate activities	**(10.1)**	(3.1)	(7.0)
Total	**115.8**	78.7	37.1

Forest products
This sector generated net earnings of $53.8M in 1999, compared with $39.7M in 1998, an increase of 35.5%.

In 1999, SGF Rexfor sold its interests in Tembec and Donohue Matane, posting gains of $18.1M and $2.7M, respectively from these disposals, and an additional share of profits in the amount of $4.1M. Conversely, it recorded a provision for losses of $7.1M on long-term investments.

This sector also benefited from the strong performance of Domtar in 1999. The share of net earnings rose to $31.3M ($163.0M for Domtar), an increase of $16.9M compared with 1998 (excluding the gain on dilution of $15.7M recorded in 1998 following the acquisition of E.B. Eddy). This growth is mainly attributable to enhanced productivity and better cost control, the favourable impact of E.B. Eddy, and a rise in average prices in the lumber and packaging sector. Better sales prices also generated higher profits for Produits Forestiers St-Alphonse and Sodexpan.

In February 2000, SGF Rexfor sold all of its interest in Malette Québec to Tembec for $50.0M, realizing a profit of $3.8M that will be included in the results of the year 2000.

Metals and minerals
This sector generated net earnings of $11.7M, compared with $7.7M in 1998, an increase of 51.9%. With the exclusion of the $4.8M asset write-off related to the Magnola demonstration plant in 1998, net earnings for the sector declined slightly, by $0.8M.

On the one hand, Albecour had a good year, recording net earnings of $18.7M, up $5.1M over 1998. Vigourous North American demand for primary aluminum continued unabated while demand in Europe grew stronger in 1999, leading to an average LME cash price of 61.8 cents U.S. per pound for the year.

Conversely, drops in profitability were recorded by several companies owned by SGF Mineral, particularly Reycan and Phillips-Fitel. Reycan's lower profitability is attributable to higher expenditures incurred during the planned closure of the plant in August 1999, and to increased conversion costs at the beginning of the year that resulted from production and quality-related issues. Phillips-Fitel posted lower profit margins than in 1998 due to the erosion of sales prices in international markets.

In January 2000, SGF Mineral sold 20% of its share in the Reycan joint venture for $22.5M, resulting in a profit of $8.0M. It continues to own 40% of the company. These results will be reflected in the SGF's 2000 financial statements.

Chemicals, petrochemicals and plastics
This sector recorded net earnings of $18.7M, compared with $16.5M in 1998, an increase of 13.3%.

The fixed costs associated with a planned stoppage and higher raw material prices had a negative impact on Petromont's results. Furthermore, in 1999, sales at SolPlastiques were low. Both decreases were more than offset by the extra sales volume experienced by Petresa, combined with lower production costs due to the drop, in the first quarter, of the price of its primary raw material: n-paraffin.

Agri-food
In 1999, this sector divested itself of two investments—CIAQ and Culinar. The sale of its interest in Culinar to the Saputo Group generated earnings of $67.7M, while the CIAQ shares were sold at the net book value in effect at December 31, 1998. Not including these sales, the sector's net earnings fell $17.2M over the previous year.

Over the same comparative period in 1998, it should be noted that CIAQ generated net earnings of $4.8M, profits that no longer exist, in light of the sale of the company in 1999. The same applies in the case of Culinar which generated in 1998 net earnings in the amount of $17.0M, $13.6M of which resulted from the sale of Drake Bakeries, an American subsidiary. In 1999, Culinar contributed only $3.0M to SGF Soquia's earnings.

High technology
The net loss for this sector includes unrealized losses of $7.5M on venture capital investments, as well as the recording of development costs for two projects—Laminés CTEK and Raychem—following a decision not to pursue these ventures.

Health
In this sector, we find joint ventures in the start-up phase and venture-capital investments. The joint ventures, DSM Biologics and Andromed, suffered losses in 1999. The fair value assessment of venture capital investments in this sector led to a $3.3M unrealized loss.

CASH FLOWS AND FINANCIAL POSITION

The SGF's consolidated assets rose from $1,757.4M at the end of 1998 to $1,956.8M at December 31, 1999. This increase of 11.3% is essentially attributable to the acquisition, during the year, of long-term investments and capital assets (particularly in the construction of the Magnola plant) offset by the sale of companies in 1999. These disposals have also contributed to reducing long-term debt since the end of 1998. Shareholder's equity was $1,510.6M as at December 31, 1999.

In 1999, the corporation retroactively introduced new accounting policies affecting the statement of cash flows. Consequently, any investment or financing activities that do not involve the exchange of cash or cash equivalents are excluded from cash flows.

Cash flows from operating activities decreased $46.4M in 1999, essentially as a result of a drop in the cash position of companies starting up and an increase in expenses in developing sectors prompted by actions related to the SGF's investment plan.

Investing activities resulted in disbursements of $234.6M:

- The acquisition of $272.2M in joint ventures and long-term investments ascribed to the purchase of Culinar shares held by Mouvement Desjardins ($140.8M), and disbursements for investment in companies such as Hillman CDT ($30.0M), Elyps ($13.5M), UltraVision ($13.0M), Patrimoines des eaux du Québec ($10.1M), UlForce ($7.6M), Theratechnologies ($7.5M), Métaforia Divertissement ($5.6M), Denharco ($5.0M), Infectio Diagnostic ($5.0M), and Moli-flex White L.P., ($3.2M).
- The disposal of joint ventures and long-term investments totalled $230.4M. The largest transactions were the sales of Culinar ($140.0M), Tembec ($47.0M), CIAQ ($21.1M), and Donohue Matane ($16.0M).
- The acquisition of capital assets and other investing activities totalled $162.4M and $11.6M, respectively. This reflects the construction of the Magnola and Karbomont plants and the capital asset expenditures by Reycan and IntrAl for their expansion projects. Moreover, the acquisition of new capital assets and other investing activities include the SGF's interests in operating companies such as Pétromont, Albecour, Soquem, Produits forestiers Bellerive Ka'N'Enda, Sacopan and Malette Québec.

The SGF's financing activities resulted in a net inflow of $144.0M in 1999. In addition to $150.0M in capital stock issued, a $41.6M increase in the long-term debt resulted from the refinancing of Petromont, and new financing for companies such as Reycan, IntrAl, Métaforia, Les Produits forestiers Bellerive Ka'N'Enda and Malette Québec. Debt repayments incurred in the normal course of business mainly involved Albecour, Malette Québec, and Petresa Canada, for a total of $54.9M.

Overall, the SGF's consolidated cash and cash equivalent decreased by $31.4M in 1999, bringing the total of cash and short-term liquid investments net of bank overdraft to $102.2M.

This drop in liquidity is mainly due to the corporation's accelerated activities and investments throughout fiscal 1999. SGF has access to bank credit facilities totalling $253.0M for its short- and long-term financing needs.

YEAR 2000

Throughout the year, the SGF's management confirmed to the members of its Board of Directors that the Y2K problem would not have a negative impact on its activities or those of its subsidiaries and the enterprises it has invested in.

The transition to the year 2000 was made possible thanks to the concerted effort of the resources at the SGF, those of its subsidiaries and companies, as well as the intervention of outside specialized resources.

Supported by state-of-the-art equipment, the SGF and its subsidiaries can continue to focus on what they do best: economic development projects with partners worldwide.

Ultimately, at the time of transition to the year 2000, the SGF achieved its goal by securing the continuity of its activities and maintaining the value of its investments.

TO THE SHAREHOLDER OF SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

In the discharge of its duties, the Board of Directors of Société générale de financement du Québec has delegated to its officers the preparation of its consolidated financial statements.

The consolidated financial statements for 1999 have been audited by an independent firm of auditors, PricewaterhouseCoopers, before their presentation to the Board of Directors, which has approved them upon recommendation of the duly constituted and appointed Audit Committee.

The management believes that these statements have been prepared in accordance with generally accepted accounting principles. They take into consideration, within reasonable limits, all significant accounting policies referred to in the notes to the consolidated financial statements.

The information contained in this annual report is consistent with the consolidated financial statements included herein.

Claude Blanchet
Chairman of the Board,
President and Chief Executive Officer

Daniel Paillé
Senior Vice-President and
Chief Financial Officer

April 17, 2000

TO THE MINISTRE DE L'INDUSTRIE ET DU COMMERCE

We have audited the consolidated balance sheet of **Société générale de financement du Québec** as at December 31, 1999 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Loi sur le Vérificateur général (L.R.Q., chapitre V – 5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

PricewaterhouseCoopers LLP
Chartered Accountants

March 3, 2000

Consolidated Statement of Earnings

for the year ended December 31, 1999

(in thousands of dollars)	1999	1998
Revenue *(note 3)*	**800,641**	759,535
Operating expenses		
Cost of goods sold and services	**631,750**	583,684
Selling, general and administrative expenses	**80,882**	71,048
Amortization and depletion	**52,992**	47,549
	765,624	702,281
Operating income	**35,017**	57,254
Investment income		
Share of earnings in significantly influenced companies	**33,711**	46,455
Gain on disposal of joint ventures and long-term investments	**89,472**	8,436
Unrealized loss on venture capital investments	**(10,129)**	(1,090)
Provision for loss on other long-term investments	**(8,639)**	(3,027)
	104,415	50,774
Earnings before the following items	**139,432**	108,028
Financial expenses *(note 4)*	**2,366**	6,375
Other expenses *(note 5)*	**21,270**	22,955
Net earnings for the year *(note 3)*	**115,796**	78,698

Consolidated Statement of Retained Earnings

for the year ended December 31, 1999

(in thousands of dollars)	1999	1998
Balance – Beginning of year	**319,634**	256,772
Net earnings for the year	**115,796**	78,698
	435,430	335,470
Related party transactions adjustment	**–**	(4,342)
Transfer to capital stock	**–**	(11,494)
	–	(15,836)
Balance – End of year	**435,430**	319,634

Consolidated Balance Sheet

as at December 31, 1999

(in thousands of dollars)	1999	1998
ASSETS		
Current assets		
Cash and cash equivalents	102,248	133,667
Temporary investments	66,139	44,381
Accounts receivable	130,476	121,994
Inventories *(note 6)*	120,385	111,356
Prepaid expenses	4,903	5,200
Current portion of long-term investments	17,370	22,191
	441,521	438,789
Long-term investments *(note 7)*	674,755	522,333
Capital assets *(note 8)*	741,855	695,323
Other assets *(note 9)*	98,695	100,990
	1,956,826	1,757,435
LIABILITIES		
Current liabilities		
Bank loans	17,057	16,728
Accounts payable and accrued liabilities	152,229	136,436
Current portion of long-term debt	30,069	18,060
	199,355	171,224
Long-term debt *(note 10)*	243,152	337,660
Non-controlling interest	3,684	3,230
	446,191	512,114
SHAREHOLDER'S EQUITY		
Capital stock *(note 11)*	1,073,340	923,340
Retained earnings	435,430	319,634
Foreign currency translation adjustments	1,865	2,347
	1,510,635	1,245,321
	1,956,826	1,757,435

Signed on behalf of the Board,

Francine Allaire
Director

Claude Lamonde
Director

Consolidated Statement of Cash Flows

for the year ended December 31, 1999

(in thousands of dollars)	1999	1998
Cash flows provided by (used in)		
Operating activities		
Net earnings for the year	115,796	78,698
Adjustments for		
Amortization and depletion	52,992	47,549
Share of earnings in significantly influenced companies	(33,711)	(46,45[illegible])
Gain on disposal of joint ventures and long-term investments	(89,472)	(8,436)
Provision for loss on other long-term investments	18,768	4,117
Amortization of unrealized exchange loss	1,876	6,603
Write-off of capital and other assets	2,894	10,063
Dividend received from significantly influenced companies	7,464	9,968
	76,607	102,107
Net change in non-cash operating working capital items *(note 12)*	(17,425)	3,495
	59,182	105,602
Investing activities		
Temporary investments	(21,758)	(44,381)
Business acquisitions and investments *(notes 3 & 13)*	(272,156)	(54,931)
Disposal of joint ventures and long-term investments	230,388	95,704
Additions to capital assets *(note 3)*	(162,362)	(107,192)
Disposal of capital assets	2,910	833
Other investing activities	(11,609)	(11,118)
	(234,587)	(121,085)
Financing activities		
Bank loans	7,285	4,794
Issuance of long-term debt	41,637	41,657
Repayment of long-term debt	(54,936)	(43,185)
Issuance of shares	150,000	50,000
	143,986	53,266
Net change in cash and cash equivalents during the year	(31,419)	37,783
Cash and cash equivalents – Beginning of year	133,667	95,884
Cash and cash equivalents – End of year	102,248	133,667
Cash and cash equivalents are comprised of		
Cash	56,760	26,754
Short-term liquid investment	50,281	108,306
Bank overdraft	(4,793)	(1,393)
	102,248	133,667
Supplemental disclosure		
Interest paid	15,782	16,237

1 STATUS AND NATURE OF ACTIVITIES

The company was created in 1962 under the "Loi sur la Société générale de financement du Québec", which was amended in 1996. The Government of Quebec is the shareholder. The purpose of the company is to carry out, in collaboration with partners and in accordance with accepted requirements of profitability, economic development projects in the industrial sector in conformity with the economic development policies of the Government of Quebec. It has established a presence notably in the forest products, metals and minerals, chemicals, petrochemicals and plastics, agri-food, high technology, health, industrial logistics, machinery and equipment, transportation and recreational tourism industries.

2 SIGNIFICANT ACCOUNTING POLICIES

Consolidation principles
The consolidated financial statements include the accounts of the company and of its subsidiaries which are accounted for under the full consolidation method which consists in incorporating the financial statements of the subsidiary into the financial statements of the company on a line-by-line basis. It also includes the accounts of the company's joint ventures accounted for under the proportionate consolidation method which involves recording the company's share of the assets, liabilities and earnings of the joint venture. The earnings of subsidiaries and joint ventures are included in the consolidated financial statements as of their respective dates of acquisition and until their respective dates of disposition, if applicable.

Change in accounting policies
In 1999, the company applied retroactively the new recommendation of the Canadian Institute of Chartered Accountants relative to the statement of cash flows. The application of this new accounting standard did not have any effect on prior years' net earnings and shareholder's equity. However, some comparative figures have been restated in respect to the new disclosure requirements.

Use of estimates
The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the utilization of estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Fair market value of financial instruments
The company has estimated the fair value of its financial instruments based on current interest rates, related market values and current pricing of financial instruments with comparable terms. The carrying value of these financial instruments, such as cash and cash equivalents, and temporary investments, accounts receivable, bank loans, and accounts payable and accrued liabilities, approximates their fair values, unless otherwise indicated.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, bank balances, short-term liquid investments with maturities of three months or less and bank overdraft.

Temporary investments
The temporary investments consist primarily of commercial papers and banker's acceptances with maturities of more than three months and are valued at the lower of cost and market value.

Inventories
Inventories are valued at the lower of cost and market value. Cost is determined by using the average cost method and the first-in, first-out method, and market value is defined as replacement cost or net realizable value.

Long-term investments
The investments in shares, on which the company can exercise significant influence, which are not considered venture capital investments, are recorded using the equity method. This involves recording the company's share of the earnings of a significantly influenced company since the date of acquisition.

The investments in shares in companies over which the company does not exercise any control or significant influence are recorded at cost.

Speculative investments in companies for the purpose of supporting their development are considered venture capital investments and are recorded at their fair value which is determined by the management of the company as follows:

Listed shares are evaluated based on the stock market price. When this value does not adequately represent the fair value, such investments are evaluated using the same valuation method as for unlisted shares. Shares with quoted values but which have restricted negotiability or transferability are discounted. In determining the amount of this discount, the company takes into account the nature and duration of the restriction and the relative instability of the security price.

Unlisted shares are recorded at cost, with the exception of cases where different values are established as a result of an independent valuation (performed in accordance with generally recognized valuation techniques), a significant arm's-length operation, or an important change in the company's business.

If a permanent decline in value occurs, the company's policy is to write down the investment to its estimated net realizable value.

Capital assets
Capital assets are recorded at cost and include interest and administrative expenses incurred during the construction of certain plants. Amortization is mainly calculated using the straight-line method based on the following estimated useful lives, which is basically the same in each of the company's sectors of activity:

Building	10 to 40 years
Machinery and equipment	3 to 25 years
Other	3 to 10 years

No amortization is recorded on the construction in progress.

Mining properties
Mining properties include the costs pertaining to the exploration and development of the sites. However, these cumulative costs do not necessarily represent the current or future value of the projects for which they were incurred and exclude the administrative costs associated with the development and exploration work, which are recorded on the income statement.

When a decision is made to commence operations, all costs pertaining to the mining properties are transferred to capital assets. However, when a project is abandoned, all costs relating thereto are written off during the year the abandonment occurred.

Goodwill
Goodwill is amortized using the straight-line method over periods ranging from 5 to 33 years. Each year, the company reevaluates the value of goodwill based on projected cash flows. A provision is made for any permanent decline in value.

Start-up costs
Start-up costs, recorded at cost, include certain financial and other costs incurred during the start-up phase of certain plants. These costs are amortized using the straight-line method over a period of three to five years.

Operating licenses
The cost of operating licenses is capitalized and amortized over fifteen years upon commencement of operations.

Foreign currency
Monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars using the year-end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates, except for those of self-sustaining foreign joint ventures which are translated at the rate prevailing at the end of the year. Revenue and expenses are translated throughout the year at the exchange rates prevailing on the transaction dates. Exchange gains or losses are included in the calculation of net earnings for the year, with the exception of those resulting from the translation of long-term debt which is recorded as an unrealized gain or loss and amortized on a straight-line basis over the remaining life of the long-term debt.

The account "Foreign currency translation adjustments" in shareholder's equity primarily includes the exchange gains or losses arising from the translation of the investment in self-sustaining foreign joint ventures.

Pension plans
Current service pension costs of defined benefit plans are determined using the projected benefit method prorated on service. The cost of past services and any actuarial surplus or deficit are amortized using the straight-line method over the expected average remaining service life of the related employee group.

Financial instruments
The company uses derivative financial instruments to reduce the risks associated with fluctuations in foreign currencies, interest rates and the price of aluminum.

Derivative financial instruments on interest rates are used to modify long-term exposure to interest rate risk. The resulting interest rate swaps are recorded with the interest expenses of the underlying debt.

Gains and losses on forward exchange contracts and options and swaps on interest rates and aluminum prices, which serve to hedge certain future identifiable risks, are accounted for in the income statement along with the underlying items being hedged.

Tax status

As it is government owned, neither the company nor its wholly owned subsidiaries are subject to income taxes.

3 SEGMENTED INFORMATION IN SUMMARY FORM

The company has operating activities in ten sectors. As at December 31, 1999, most investments were in the following sectors: forest products, metals and minerals, chemicals, petrochemicals and plastics, agri-food, high-technology and health. Other operating activities have been grouped under sectors in development.

(in thousands of dollars)		Revenue	Net earnings (loss)	Segment assets	Additions to capital assets	Business acquisitions and investments
Forest products	**1999**	**131,964**	**53,763**	**640,423**	**14,698**	**10,331**
	1998	120,025	39,696	668,565	10,604	7,482
Metals and minerals	**1999**	**265,199**	**11,694**	**600,431**	**120,152**	**3,333**
	1998	261,080	7,692	491,133	47,818	2,386
Chemicals, petrochemicals and plastics	**1999**	**289,323**	**18,730**	**338,684**	**14,263**	**6,949**
	1998	255,601	16,482	301,318	42,443	10,978
Agri-food	**1999**	**104,674**	**75,375**	**206,641**	**3,937**	**157,444**
	1998	122,376	24,925	129,705	3,016	2,945
High technology	**1999**	**2,470**	**(14,042)**	**92,622**	**3,988**	**56,444**
	1998	–	(3,097)	38,809	–	23,200
Health	**1999**	**7,011**	**(13,235)**	**75,178**	**1,424**	**26,589**
	1998	363	(3,894)	59,866	100	6,716
Sectors in development	**1999**	**–**	**(6,360)**	**35,313**	**441**	**11,066**
	1998	–	–	14,356	–	1,224
Total segment	**1999**	**800,641**	**125,925**	**1,989,292**	**158,903**	**272,156**
	1998	759,535	81,804	1,703,752	103,981	54,931
Corporate activities	**1999**	**–**	**(10,129)**	**96,820**	**3,459**	**–**
	1998	–	(3,106)	121,027	3,211	–
Eliminations	**1999**	**–**	**–**	**(129,286)**	**–**	**–**
	1998	–	–	(67,344)	–	–
Total consolidated	**1999**	**800,641**	**115,796**	**1,956,826**	**162,362**	**272,156**
	1998	759,535	78,698	1,757,435	107,192	54,931

4 FINANCIAL EXPENSES

(in thousands of dollars)	**1999**	1998
Interest on long-term debt	**13,220**	15,063
Other financial expenses	**3,412**	3,812
	16,632	18,875
Interest income	**(14,266)**	(12,500)
	2,366	6,375

5 OTHER EXPENSES

(in thousands of dollars)	1999	1998
Corporate expenses	16,184	9,514
Write-off of capital and other assets	2,894	10,063
Amortization of unrealized exchange loss	1,876	6,603
Financial assistance reimbursement *(note 16 a))*	1,358	1,723
Income tax	2,887	3,174
Non-controlling interest	459	253
Gain on sales of alumina contracts	(1,937)	(3,669)
Other	(2,451)	(4,706)
	21,270	22,955

6 INVENTORIES

(in thousands of dollars)	1999	1998
Raw materials and supplies	64,710	48,457
Work in process	21,953	21,548
Finished goods	33,722	41,351
	120,385	111,356

7 LONG-TERM INVESTMENTS

(in thousands of dollars)	1999		1998	
	Book value	Market value	Book value	Market value
Significantly influenced companies using equity method				
Domtar Inc.	342,802	621,423	317,217	321,613
Culinar Inc.	–		32,452	
NSI Communications Inc.	11,329	7,986	12,311	9,286
Other	75,582		57,455	
	429,713		419,435	
Venture capital, at fair value *(note 7 a))*	112,810		50,165	
At cost				
Groupe Saputo inc.	99,995	88,354	–	
Theratechnologies inc.	7,500	6,580	–	
Tembec Inc.	–		28,885	26,224
Loans and debentures *(note 7 b))*	29,377		26,332	
Other *(note 7 b))*	12,730		19,707	
	149,602		74,924	
	692,125		544,524	
Less: Current portion	17,370		22,191	
	674,755		522,333	

a) As at December 31, 1999, the cost of venture capital investments is $125,250,000 (December 31, 1998 – $52,196,000).

b) The fair value of other investments accounted for at cost is approximately equal to the book value.

8 CAPITAL ASSETS

(in thousands of dollars)			1999	1998
	Cost	Accumulated amortization and depletion	Net	Net
Forest products	150,680	38,947	111,733	163,137
Metals and minerals	527,292	138,945	388,347	288,966
Chemicals, petrochemicals and plastics	355,906	155,021	200,885	203,962
Agri-food	16,188	6,595	9,593	18,595
High technology	8,198	1,025	7,173	–
Health	20,779	5,281	15,498	16,965
Sectors in development	430	67	363	–
Other	14,973	6,710	8,263	3,698
	1,094,446	352,591	741,855	695,323

9 OTHER ASSETS

(in thousands of dollars)	1999	1998
Mining properties	39,607	37,985
Goodwill	28,769	23,578
Operating licenses	9,294	6,682
Start-up costs	8,770	7,869
Unrealized exchange loss	2,064	11,972
Other	10,191	12,904
	98,695	100,990

10 LONG-TERM DEBT

(in thousands of dollars)	1999	1998
Revolving bank loan at prime rate or LIBOR plus 0.35% to 0.55%, maturing in 2003 *(note 10 d))*	76,495	102,345
Bank loan bearing interest at rates varying from LIBOR plus 0.625% to 2% or from the U.S. base rate to the U.S. base rate plus 1.5%, payable in variable semi-annual payments and in one final payment on June 30, 2003 *(note 10 a))*	40,191	51,558
Amounts due to Investissement Québec		
Variable rate loan repayable and convertible to common shares at the option of the company in 2009 *(note 10 b))*	11,930	11,930
Interest-free amount repayable no later than October 31, 2017	9,000	9,000
Bonds, reimbursed during the year	–	62,127
Credit agreement at prime rate plus 1.625%, repayable in quarterly instalments and ending in 2004 *(note 10 b))*	9,281	19,887
Bank loan at prime rate plus 0% to 0.125% or at the discount rate for banker's acceptances plus 0.65% to 0.875% and maturing in 2007 *(note 10 b))*	16,500	14,500
Revolving credit facility at LIBOR plus 0.4%, unsecured, available until 2003	27,598	13,010
Loan from a partner		
At 3.61%, maturing in 2003 (NLG13,600,000)	9,049	12,806
Without interest or specific terms of repayment	5,298	7,200
Construction loan convertible to revolving term loan at 5.16%, maturing in 2007 *(note 10 b) and c))*	11,040	9,300
Revolving term loan at prime rate, maturing in 2002	5,110	–
Others	51,729	42,057
	273,221	355,720
Less: Current portion	30,069	18,060
	243,152	337,660

a) A fixed and floating charge on all present and future assets of this joint venture as well as a general assignment of accounts receivable and inventories with a book value of $87,149,000 as at December 31 1999, have been pledged as security for this loan.

b) Mortgage bonds for the purpose of creating mortgages on the universality of assets of joint ventures with a book value of $179,479,000 as at December 31, 1999, have been pledged as security for these loans.

c) A joint venture has entered into interest rate swap agreements regarding the construction loan for a total amount of $10,080,000 at an average rate of 5.52%, maturing from June 2000 to June 2006 inclusive.

d) The revolving loan can be renewed for two twelve-month periods, at the option of the company.

e) The long-term debt denominated in U.S. dollars amounts to US$101,009,000 as at December 31, 1999 (1998 – US$112,486,000).

f) Principal repayments due within each of the next five years are as follows:

(in thousands of dollars)	
2000	30,069
2001	13,047
2002	21,824
2003	143,853
2004	6,443

g) The fair value of the long-term debt based on discounted cash flows at market rates amounts to approximately $267,736,000 as at December 31, 1999.

11 CAPITAL STOCK

Authorized – par value of $10

292,500,000 common shares

Issued

(in thousands of dollars)	1999	1998
107,334,018 common shares (1998 – 92,334,018)	1,073,340	923,340

During the year, the company issued 15,000,000 common shares for a cash consideration of $150,000,000.

The company can request the shareholder to subscribe and pay for an additional 185,165,982 common shares representing an amount of $1,851,660,000 based on the company's financial needs as provided for in its annual operational plan and consistent with its five-year development plan.

12 NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL ITEMS

(in thousands of dollars)	1999	1998
Decrease (increase) in		
Accounts receivable	(24,715)	4,852
Inventories	(20,709)	7,534
Prepaid expenses	(705)	1,491
Increase (decrease) in		
Accounts payable and accrued liabilities	28,704	(10,382)
	(17,425)	3,495

13 BUSINESS ACQUISITIONS AND INVESTMENTS

(in thousands of dollars)	1999	1998
Acquisition of joint ventures		
Métaforia Divertissement inc. *(note 13 a))*	5,639	–
Moli-Flex White L.P. *(note 13 b))*	3,183	–
Intragaz, L.P.	–	10,218
DSM Biologics Inc.	–	487
Acquisition of significantly influenced companies		
Culinar Inc. *(note 13 c))*	140,828	–
Patrimoine des eaux du Québec Inc.	10,000	–
NSI Communications Inc.	–	13,000
Other	17,033	7,808
Acquisition of venture capital companies		
Hillman CDT LLC	30,060	–
UltraVision Corporation	13,000	–
Elyps solutions de répartition inc.	13,500	5,500
UForce Inc.	7,600	–
Other	8,096	8,432
Other	23,217	9,486
	272,156	54,931

a) During the year, the company acquired a 50% interest of Métaforia Divertissement inc. The acquisition cost, net of the cash and cash equivalents acquired, was $5,639,000. The excess of the acquisition cost over the net book value of $5,590,000 was recorded as goodwill and will be amortized over five years, at the beginning of the commercial operation expected in 2000.

b) On March 4, 1999, the company acquired a 40% interest in Moli-Flex White L.P. for a cash consideration of $3,183,000, net of the cash and cash equivalents acquired.

These acquisitions have been accounted for by the purchase method. The company's share of the operating results of these companies has been included in the consolidated statement of earnings since the acquisition date. Net assets acquired are as follows:

(in thousands of dollars)	
Current assets	1,218
Capital assets	3,790
Goodwill	5,590
Other assets	429
	11,027
Current liabilities	1,257
Long-term debt	948
	2,205
Acquisition cost net of the cash and cash equivalents acquired	8,822

c) In August 1999, the company acquired an additional interest in Culinar Inc. for a cash consideration of $140,828,000, as a result of exercising its right of first refusal subsequent to receiving an offer to purchase. Subsequently, the company disposed of its investment in Culinar Inc. for a total amount of $246,262,000, of which $99,995,000 was in the form of shares, $6,300,000 as a note receivable and $139,967,000 in cash. This transaction resulted in a gain of $67,700,000.

14 FINANCIAL INSTRUMENTS

Financial instruments, in addition to those pertaining to long-term debt, *(note 10)* which represent an off-balance sheet risk, are described hereunder.

Foreign currency

To reduce the impact of fluctuations in exchange rates on U.S. dollar revenue and Deutsche mark denominated equipment purchases, the company uses a combination of forward exchange contracts and options. As at December 31, 1999, forward exchange contracts on U.S. dollars and sell options on U.S. dollars with maturities up to February 2001 at rates ranging from 1.445% to 1.4931% amounted to US$22,000,000 and US$11,000,000 respectively. In addition, the company has forward exchange contracts to buy Deutsche marks with maturities up to November 2000 for DM3,400,000. As at December 31, 1999, the unrealized gains on forward exchange contracts and options on U.S. dollars were $254,000, while the unrealized gain on forward exchange contracts on Deutsche marks was $350,000.

Commodity contracts

To reduce the impact of fluctuations in aluminum prices, the company uses a combination of forward contracts and options. As at December 31, 1999, the tonnage committed to forward contracts amounted to 900 tons and the unrealized loss on these forward contracts was $75,000.

Credit risk

The above-mentioned contracts are offset by changes in the value of the underlying items being hedged. The company may be exposed to losses if the counterparties to the above contracts fail to perform. On December 31, 1999, the company is satisfied that the risk of such non-performance is remote.

The company invests its temporary investments according to established policies in securities of major financial institutions with a high credit rating. The company is subject to economic conditions affecting the industries in which it operates. The company continually monitors its clients' credit. It establishes the provision for doubtful accounts based on the credit risk applicable to each client. Management believes that there is no significant credit risk as at December 31, 1999.

15 JOINT VENTURES

Joint ventures of the company are accounted for under the proportionate consolidation method. The major components of these joint ventures included in these consolidated financial statements are:

(in thousands of dollars)	1999	1998
Consolidated statement of earnings		
Revenue	568,426	504,507
Operating income	37,323	43,503
Net earnings	20,234	20,705
Consolidated balance sheet		
Current assets	190,664	161,669
Long-term assets	456,709	495,541
Current liabilities	110,517	106,580
Long-term liabilities	121,049	216,321
Consolidated statement of cash flows		
Operating activities	38,079	51,053
Investing activities	(73,717)	(69,368)
Financing activities	23,167	13,738

16 COMMITMENTS

a) Financial assistance

A joint venture received financial assistance from the governments of Canada and Quebec totalling $25,000,000 for the years 1983 and 1984 as compensation for losses incurred during those two years. This financial assistance included clauses providing for the reimbursement of the principal (and interest for the period from January 1, 1988 to December 31, 1992), in relation to the profitability of the joint venture, up to a maximum of $5,000,000 per year. The balance of the financial assistance not reimbursed as at December 31, 1999 amounts to $19,531,000 (1998 – $21,253,000). Of this balance, an amount of $1,358,000 (1998 – $1,723,000) was recorded in order to provide for the partial reimbursement of this financial assistance on March 31, 2000.

b) Leases and long-term commitments

The company is committed under leases and long-term commitments to make minimum payments amounting to $41,823,000 during the next five years as follows:

(in thousands of dollars)	
2000	14,132
2001	12,133
2002	5,722
2003	5,179
2004	4,656

The company is also committed to the acquisition of capital assets and purchases of services and raw materials amounting to $43,029,000 during the next years. Furthermore, as at December 31, 1999, the company had committed to subscribe to long-term investments for an amount of $45,000,000.

c) Credit facility

The company has an available line of credit in the amount of $253,000,000 as at December 31, 1999 which can be used for short- or long-term financing and bears interest at prime rate or at the money market rate.

17 PENSION PLANS

The company and certain of its subsidiaries have various defined benefit pension plans for their employees. The most recent actuarial valuations, extrapolated when necessary, which are based on years of service and the average earnings of the related employees, indicate that the actuarial value of accrued pension benefits and the net assets available for pension benefits, based on the company's proportionate investment share, are as follows as at December 31:

(in thousands of dollars)	1999	1998
Market value of pension plan assets	68,377	63,717
Actuarial value of accrued pension benefits	59,825	55,718
Actuarial surplus	8,552	7,999

18 UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the company, including those related to customers, suppliers, or other third parties, have been fully resolved.

19 COMPARATIVE FIGURES

Certain comparative figures for the year ended December 31, 1998 have been reclassified to conform with the 1999 financial statement presentation.

20 SUBSEQUENT EVENTS

Forest products sector

On February ?, 2000, the company sold its interest in the joint venture, Malette Rexfor inc. for a cash consideration of $50,000,000. A gain of approximately $3,800,000 resulted from this transaction.

Metals and minerals sector

On January 19, 2000, the company sold 20% of its interest in the joint venture, Reycan L.P., for a cash consideration of $22,500,000. A gain of approximately $8,000,000 resulted from this transaction.

Consolidated Summary of Investments

for the year ended December 31, 1999

(in thousands of dollars)	**1999**	1998
ACCOUNTING METHOD USED		
Subsidiaries (full consolidation)	**505,565**	540,026
Joint ventures (proportionate consolidation)	**759,136**	672,885
Significantly influenced companies (equity method)	**429,713**	419,435
Venture capital investments (fair value)	**112,810**	50,165
Other investments (at cost)	**149,602**	74,924
Total Assets	**1,956,826**	1,757,435

Five-Year Review

for the year ended December 31, 1999

(in thousands of dollars)	1999	1998	1997	1996	1995
Revenue	800,641	759,535	669,129	357,212	550,687
Income (loss) before following items:	29,960	78,698	35,105	(9,696)	182,107
Gain on disposal of interest					
in Culinar	67,721	–	–	–	–
in Tembec	18,115	–	–	–	
in Noverco	–	–	115,671	–	–
in Bécancour smelter	–	–	–	–	244,470
Income (loss) from continuing operations	115,796	78,698	150,776	(9,696)	426,577
Discontinued operations	–	–	–	44,198	(43,351)
Net earnings	115,796	78,698	150,776	34,502	383,226
Total assets	1,956,826	1,757,435	1,588,861	883,043	1,420,475
Total long-term debt	273,221	355,720	307,486	203,962	225,612
Non-controlling interest	3,684	3,230	2,977	–	26,481
Shareholder's equity	1,510 635	1,245,321	1,120,056	575,466	1,021,840
Debt:equity ratio	15:85	22:78	21:79	26:74	18:82

Domtar Inc.	Weston	19.40
	CDPQ	17.59
	Other	43.27
	SGF Rexfor inc.	**19.74**
Les Produits forestiers Bellerive Ka'N'Enda inc.	**SGF Rexfor inc.**	**100**
Produits forestiers St-Alphonse inc.	**SGF Rexfor inc.**	**100**
Malette Rexfor inc. (Malette Québec inc.)	Tembec inc.	45.7
	Public	8.6
	SGF Rexfor inc.	**45.7**
MDF La Baie inc.	Uniboard Canada inc. (Germany)	50.01
	Sodexpan inc.	
	- Sodexfor	24.995
	- **SGF Rexfor inc.**	**24.995**
F.F. Soucy inc. & associés	F.F. Soucy inc.	50.1
	Dow Jones & Company Inc.	39.9
	SGF Rexfor inc.	**10**
Sacopan inc.	Boisaco inc.	43.48
	Investra (1985) inc.	6.52
	SGF Rexfor inc.	**50**
Denharco inc.	Solidarity Fund QFL	72.05
	Garantie-Québec	7.4
	SGF Rexfor inc.	**20.55**
Groupe Pyrovac inc.	Sodexfor	15
	Université Laval	6.8
	Omnivac	5.8
	Dr. Christian Roy	28.8
	Other	28.6
	SGF Rexfor inc.	**15**

Soquem inc.	**SGF Mineral inc.**	**100**
Albecour inc.	**SGF Mineral inc.**	**100**
Aluminerie Alouette	Austria Metal (Austria)	20
	Hoogovens Groep (Netherlands)	20
	Kobe Steel (Japan)	13.33
	Marubeni (Japan)	6.67
	VAW (Germany)	20
	SGF Mineral inc. (Albecour)	**20**
Reycan L.P.	Reynolds Metals Company (United States)	50
	SGF Mineral inc.	**50**
IntrAl L.P.	Sural (Venezuela)	51
	SGF Mineral inc.	**49**
Phillips-Fitel inc.	Furukawa Electric (Japan)	55
	SGF Mineral inc.	**45**
Neuman USA Ltd.	Fried V. Neuman (Austria)	60
	SGF Mineral inc.	**40**
Neuman Aluminium Canada	Neuman Holding Canada (Austria)	60
	SGF Mineral inc.	**40**
Société de développement du Magnésium	Solidarity Fund QFL	33.3
	Sofinov	33.3
	SGF Mineral inc.	**33.3**
Altex Extrusion inc.	Metra SpA (Italy)	55
	Olex	22.5
	SGF Mineral inc.	**22.5**

Magnola Metallurgy inc.	Noranda Inc.	80
	SGF Mineral inc.	**20**
Explo-Zinc inc.	**SGF Mineral inc. (Soquem)**	**100**
KPM North America L.P.	KPM SpA (Italy)	51
	SGF Mineral inc.	**49**
Sodémex L.P.	Capital d'Amérique CDPQ	50
	SGF Mineral inc. (Soquem)	**50**
Soquip inc.	**SGF Chemical inc.**	**100**
Pétromont L.P.	Union Carbide (United States)	50
	SGF Chemical inc.	**50**
Petresa Canada inc.	Petresa (Spain)	51
	SGF Chemical inc.	**49**
Karbomont L.P.	Kvaerner (Norway)	50
	SGF Chemical inc.	**50**
Kemfor L.P.	Produits Forestiers Turpin	33.3
	Kemestrie inc.	33.3
	SGF Chemical inc.	**33.3**
SolPlastiques L.P.	Misol Technologies (Venezuela)	55
	Solidarity Fund QFL	22.5
	SGF Chemical inc.	**22.5**
TechBlend L.P.	Marfed Holdings	85
	SGF Chemical inc.	**15**
Société de Cogénération St-Félicien L.P.	CHI Canada inc. (United States)	59.9
	Centrale thermique St-Félicien	4
	SGF Chemical inc. (Soquip)	**36.1**
Intragaz L.P.	GDF Québec inc. (France)	40
	SGF Chemical inc. (Soquip)	**60**
Turbocor inc.	Turbocorp BV (Australia)	58
	SGF	**42**
Andromed inc.	Theratechnologies	50
	SGF Health inc.	**50**
DSM Biologics inc.	DSM (Netherlands)	60
	SGF Health inc.	**40**
Theratechnologies inc.	Public	73.8
	André de Villers	10
	Global Asset Management	5
	Fidelity Investments	4.9
	SGF Health inc.	**6.3**
Infectio Diagnostic (IDI) Inc.	Infectio Recherche inc.	48.05
	Compensation BNC inc.	20.45
	Other	16.07
	SGF	**15.43**
Bio-Inova Life Science North America	Gestion Bio-Inova (France)	55
	SGF Health inc.	**45**
UltraVision Corporation	Solidarity Fund QFL	12.67
	Canadian Medical Discoveries Fund	11.15
	Other	44.82
	SGF Health inc.	**31.36**
Corporation Haemacure	Public	37.79
	ZLB	28.78
	Multipède	8.11
	BioCapital	8.07
	SGF Health inc.	**17.25**

RTP Pharma inc.	Cato Group	24.7
	Elan Group (Ireland)	22.9
	Sofinov	14.8
	Innovatech du Grand Montréal	8.9
	EGS	5.2
	BioCapital	5
	Other	9.6
	SGF Health inc.	**8.9**
NSI Communications inc.	Pinetree Capital Corp.	9
	David Ben-David	7.5
	Manitex Capital inc.	3
	Zbysek Kocur	2.5
	Other	36
	SGF Tech inc.	**42**
Goal Semiconductors inc.	Vision 2000 (Mosel) (Taiwan)	48.72
	Gordon W. Harling	5.05
	Abdellah A Zelmad	1.49
	SGF Tech inc.	**44.74**
Domosys Corporation	Battery Enterprises	15.3
	Consultmar	10.1
	Other	45.9
	SGF Tech inc.	**28.7**
Laminés CTEK inc.	Compositech USA (United States)	50
	Innovatech du Grand Montréal	16.7
	Solidarity Fund QFL	16.7
	SGF Tech inc.	**16.7**
Alis Technologies inc.	Corporate investors	33.76
	Other investors	20.77
	Grebco Holdings Ltd. (United States)	17.81
	Banexi communication (France)	6.6
	Robnar Investments Ltd.	4.35
	SGF Tech inc.	**16.71**
UTForce inc.	Holding UTForce inc.	58.63
	Other	1.28
	SGF Tech inc.	**40.09**
Moli-Flex White L.P.	Ciné-Cité	60
	SGF Tech inc.	**40**
CDT Acquisition Corporation	Kelso & Company	36.5
	Other	27
	Hillman CDT LLC	
	- Hillman Management, LLC (England)	8.6
	- Hollinger	4.8
	- K. Bain, Seuth & Holbrook Capital Management	3.9
	SGF Tech inc.	**19.2**
Elyps Solutions de répartition inc.	Robert Bourgeault	42.2
	CDPQ	28.4
	FGRCR/STCUM	7.5
	Solidarity Fund QFL	7.5
	Com2i et Cie SCA (France)	6.8
	SGF Tech inc.	**7.5**
Métaforia Divertissement inc.	S. Le Bouyonnec	23.6
	C. Gagnon	23.6
	Other	2.8
	SGF	**50**

Québec Porcine Insemination Centre (C.I.P.Q.)	**SGF Soquia inc.**	**100**
Veterinary Medicine Distribution Centre (C.D.M.V.) inc.	**SGF Soquia inc.**	**100**
Aliments Carrière inc.	Géros inc.	39.9
	Investissement Desjardins	14.1
	Other	13.6
	SGF Soquia inc.	**32.4**
Gestion Groupe R.T. Ltée	9039-9139 Québec inc.	51.1
	CDPQ	29.7
	SGF Soquia inc.	**19.2**
Pisciculture Alléghanys inc.	Private investors	79.4
	SGF Soquia inc.	**20.6**
Entreprises Champost inc.	Cantine Guillaume	49.4
	Other	20.3
	SGF Soquia inc.	**30.3**
Composts du Québec inc.	Gestion R. Bureau	50.1
	Recyc-Québec	14.8
	Fonds Agro-forestier	13.8
	SGF Soquia inc.	**21.3**
Les Fruits bleus inc.	Senco inc.	43.9
	Socrent	28.6
	SGF Soquia inc.	**27.5**
Fabrique de glaces à l'européenne	Restaurant Jeune Cartier inc.	85
	SGF Soquia inc.	**15**
Épicerie Méditerranéenne inc.	Gestion Khediri inc.	60
	SGF Soquia inc.	**40**
Patrimoine des eaux du Québec inc.	Patrimoine des eaux du Canada inc.	65
	SGF Soquia inc.	**35**
Pêcheries Marinard inc.	Private investors	70
	CDPQ	20
	SGF Soquia inc.	**10**
Canneberges Atoka inc.	Private investors	63.8
	Other	16.2
	SGF Soquia inc.	**20**
GRT Aquatechnologies inc.	Gestion Groupe R.T.	52
	SGF Soquia inc.	**48**
La Maison du Gibier inc.	Private investors	80
	SGF Soquia inc.	**20**
Saputo Group Inc.	Saputo Family	70.3
	Public	24.8
	SGF Soquia inc.	**4.9**

Technologies M4 inc.	HQ CapiTech inc.	49
	Sofinov	20.4
	Solidarity Fund QFL	10.2
	SGF	**20.4**

Novacap inc.	National Bank of Canada	17.67
	Capital d'Amérique CDPQ	17.67
	Canpen	17.67
	CBC pension fund	10.91
	Air Canada pension fund	5.29
	Pratt & Whitney pension fund	4.83
	Assurance-vie Desjardins-Laurentienne	5.67
	Boréal assurances	2.6
	SGF	**17.67**

Management

as at April 7, 2000

CLAUDE BLANCHET
Chairman of the Board
President and Chief Executive Officer

FRANCIS BELLIDO
President and Chief Operating Officer
SGF Health inc.

JACQUES L. BONAVENTURE
Vice-President, Development
Transportation Equipment

ANDRÉ L'ECUYER
President and Chief Operating Officer
SGF Rexfor inc.

FRANCINE FRENETTE
Assistant to the President

DANIEL PAILLÉ
Senior Vice-President and
Chief Financial Officer

JACINTHE DAUPHIN
President and Chief Operating Officer
SGF Chemical inc.

YVES MILORD
President and Chief Operating Officer
SGF Soquia inc.

PIERRE LAFLAMME
President and Chief Operating Officer
SGF Tech inc.

SYLVAIN BOUCHARD
Vice-President, Development
Machinery

MARC FILION
President and Chief Operating Officer
SGF Mineral inc.

RICHARD FREDETTE
Vice-President
Corporate Planning

ANDRÉ ROY
Senior Vice-President
Administration

JEAN-YVES DUTHEL
Vice-President
Communications and Public Relations

MARIO GUILLEMETTE
Vice-President, Development
Industrial Logistics

JEAN-JACQUES BOURGEAULT
Vice-President, Development
Recreational Tourism
(absent)

Board of Directors

as at April 7, 2000

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President and Chief Operating Officer
Desjardins Securities

MARC-ANDRÉ BÉDARD
Counsel
Gauthier Bédard
Law firm

CLAUDE BLANCHET
Chairman of the Board
President and Chief Executive Officer
Société générale de financement du Québec

LÉON COURVILLE
Economist

ROLAND O. CYRENNE
Vice-Chairman
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EEC Canada Inc.

JEAN PRONOVOST
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Ministry of Industry and
Commerce, Québec

STÉPHANE SAINTONGE
Lawyer
Legault Joly

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as at April 7, 2000

SGF CHEMICAL INC.

Claude Blanchet
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Jacinthe Dauphin
Richard Fredette
Michael Gibbons
Krish Krishnamoorthy
Pierre Martin
Julien Métivier
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Claude Blanchet
Jean-Guy Chaput
Raymond Grenier
Aimé Légaré
Yves Milord
Daniel Paillé
André Vézina
(two vacancies)

SGF TECH INC.

Claude Blanchet
Serge Boudreault
Léon Courville
Philip L. Engelhardt
Denis Faubert
Louis Lagacé
Pierre Laflamme
André Roy
(one vacancy)

The SGF is in lockstep with the global economic trends of the day. It is also exercising a positive influence on the very fabric of the Quebec economy. I would like to thank the people of this corporation, which include some leading industry experts, for their performance.

Together, we have made a roaring entry into 2000, which forms the link between two centuries. Our achievements this year will pave the way for the future.

We hope that the coming year will see two new projects realized, both in financial terms and in terms of employment. One is the construction of a semi-conductor plant, for which the SGF has been unwavering in its search for foreign investors since 1995. The other is the Technodome.

All SGF sectors are now well positioned to pursue the corporation's overall mission. Throughout 2000, they will bring to fruition a series of projects that will contribute to Quebec's success on the global stage and to a considerable return on investment. Today more than ever, the SGF is a major actor in the development of industry, contributing to the remarkable performance of the Quebec economy.

CLAUDE BLANCHET

Chairman of the Board,

President and Chief Executive Officer

The SGF has taken the necessary measures to ensure a smoke-free environment for employees and visitors as prescribed by the *Act respecting the protection of non-smokers in certain public spaces*.

The awarding of supply and service contracts by the SGF is subject to a formal policy, a copy of which may be obtained from the Secretary.

A new Code of Ethics was adopted by the Board of Directors of SGF on April 21, 1999, pursuant to the Regulation on the Ethical Conduct of Public Administrators. A copy of the Code may be obtained from the Secretary.

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www.sgfqc.com

Gauthier et associés designers

Jean Vachon

Québec

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